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E.O. 11652: N/A

TAGS: ETRD, KS, TW

SUBJECT: USG/ROKG MEMORANDUM OF UNDERSTANDING

REF: JURICH/SMITH TELCON JANUARY 15, 1975

SEOUL FOR ADLER AND MCCONVILLE

TAIPEI FOR JURICH

GENEVA FOR PHELAN

1. WITH REFERENCE TO HONG KONG BILATERAL ON 224 (MENS' AND BOY'S KNIT SUITS) UNDER OLD HONG KONG BILATERAL WHICH TERMINATED SEPTEMBER 30, 1974, LEVELS WERE AS FOLLOWS (ALL WERE CONSULTATION LEVELS):

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- A. FIRST AGREEMENT YEAR (1971-1972) 475,274 UNITS
- B. SECOND AGREEMENT YEAR (1972-1973) 510,920 UNITS
- C. THIRD AGREEMENT YEAR (1973-1974) 549,239 UNITS

INASMUCH AS 224 (SUITS) WERE CONSULTATION LEVELS UNDER OLD BILATERAL, ANNUAL GROWTH WAS SEVEN AND ONE HALF PERCENT AS

SPECIFIED IN AGREEMENT. CONVERSION FACTOR WITH HONG KONG HAS ALWAYS RPT ALWAYS BEEN 4.5 SYE PER SUIT.

2. AS INDICATED TO YOU EARLIER, PRESENT HONG KONG 224 LEVEL FOR FIRST AGREEMENT YEAR IS 593,563 UNITS, AN INCREASE OF EIGHT PERCENT OVER THIRD AGREEMENT YEAR OF OLD BILATERAL. FYI YOU WILL RECALL THAT THE DIFFERENCE OF ONE HALF OF ONE PERCENT OVER OLD GROWTH WAS GIVEN TO HONG KONG DURING NEGOTIATIONS LAST SPRING AS FINAL "SWEETENER" FOR THEM TO ACCEPT COMPREHENSIVE BILATERAL. END FYI

3. WITH REGARD TO KOREAN AVERAGE WEIGHT PER SUIT FIGURE OF 2.8 (VERSUS ROKG CLAIM OF 2.5), SMITH, GAREL, AND HESTER DISCUSSED THIS FULLY WITH LEE AND NOH. THE 2.8 POUNDS FIGURE DERIVED AS FOLLOWS:

ACTUAL 224 SUITS IMPORTS FROM KOREA

NUMBERS (UNITS)	POUNDS	AVERAGE WEIGHT/UNIT
1972 373,016	1,042,791	2.8 POUNDS/UNIT
1973 363,160	1,014,256	2.8 POUNDS/UNIT

YOU WILL RECALL THAT ORIGINAL 224 SUIT LEVEL FOR ROKG WAS 10,000,000 SQUARE YARDS BUT RPT BUT ALWAYS EXPRESSED IN POUNDS AT OLD CONVERSION RATE OF 7.8 OR 1,282,051 POUNDS. WHEN WE MET WITH ROKG IN SEPTEMBER, ROKG PRESSED FOR CHANGE IN CONVERSION FACTOR FROM 7.8 SYE/LBS TO 4.5 SYE/UNIT. WE WERE WILLING TO DO THIS SO LONG AS CHANGE WOULD NOT GIVE ROKG INCREASE IN NUMBER OF SUITS ALLOWED UNDER BILATERAL (DIFFERENCE IN YARDAGE GAINED BY ROKG UNDER NEW CONVERSION FACTOR COULD THEN BE USED ELSEWHERE BUT NOT RPT NOT IN 224 SUITS) HENCE, TAKING THE OLD FIGURE OF 1,282,051 POUNDS ALLOWED UNDER OLD MMF LIMITED OFFICIAL USE

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BILATERAL AND DIVIDING IT BY AVERAGE WEIGHT PER SUIT OF 2.8 (AS SHOWN IN ACTUAL CALCULATION FOR 1972 AND 1973), YOU ARRIVE AT FIGURE OF 457,875 UNITS RPT UNITS WHICH IS FIGURE WE ORIGINALLY HAD IN MIND DURING SEPTEMBER TALKS.

4. SUBSEQUENT TO SEPTEMBER TALKS YOU INSTRUCTED SMITH, GAREL, AND HESTER TO PROPOSE A TEN PERCENT REDUCTION FROM THE 457,875 FIGURE, OR 412,087 UNITS WHICH IS STILL A

10.4 PERCENT INCREASE OVER THE 1972 ACTUAL IMPORT FIGURE
AND A 13.4 PERCENT INCREASE OVER 1973 ACTUAL IMPORT
FIGURE.

5. THE KOREANS WOULD NATURALLY PREFER TO HAVE A 2.5
AVERAGE WEIGHT PER UNIT FIGURE USED TO SET UNIT LEVEL,
BECAUSE THEY WOULD GET MORE UNITS, BUT THE 2.8 FIGURE IS
A REAL AVERAGE WEIGHT FIGURE VERIFIED BY ACTUAL COUNT.

6. KEY POINT FOR ENTIRE PROBLEM IS THAT KIM DONG WHIE AND
YOU AGREED THAT ACTUAL UNIT LEVEL FOR 224 SUIT CATEGORY
SHOULD NOT INCREASE FOR DURATION OF NEW AGREEMENT
(INDEED IT SHOULD BE REDUCED, REFLECTING MORE CLOSELY
ACTUAL TRADE), EVEN IF CHANGE IN CONVERSION FACTOR MADE
MORE YARDS AVAILABLE. SUCH EXTRA YARDAGE WAS TO BE USED
ELSEWHERE. CHANGE IN CONVERSION FACTOR WAS A "SWEETENER"
TO INDUCE THEM ACCEPT REDUCTION IN SUIT LEVEL. KISSINGER

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